Implementing Will-Cost & Should-Cost Management

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Leadership Direction and Thoughts

- **Adopt Will- and Should-Cost management - use historically informed independent estimation (will-cost estimates) to inform managing of programs to cost objectives (should-cost estimates)**
- **Managers should be driving productivity into their program - need to scrutinize every element of program cost**
  - **Use will-cost estimate to support budgeting and programming**
    - **Reasonable extrapolations from history**
    - **Represents business-as-usual management**
  - **To interrupt cycle of self-fulfilling prophecy to will-cost estimate, program manager must bring forward a should-cost estimate**
    - **Justify every element**
    - **Show how it is improving year by year or meeting other benchmarks for value**
- **Applies to ACAT I, II, and III programs**

Leadership Direction and Thoughts - (continued)

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- **Metric for success - few percent per year of programs/ contracts executing below budget**
- **Industry can succeed in this environment**
  - **Tie performance to higher profit**
  - **Affordable programs won't face cancellation**

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Will-Cost and Should-Cost Management - Defined

- **Two separate cost estimates**
  - **A non-advocate will-cost estimate for budgeting and programming**
  - **A program manager should-cost estimate for program management execution**

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Will-Cost Estimate Definition

- **The budget baseline will be based on a non-advocate will-cost estimate.**
  - **Aims to provide sufficient resources to execute the program under normal conditions, encountering average levels of technical, schedule, and programmatic risk (usually no less than 50% confidence level).**
  - **Supports the budget and ensures sufficient funding to provide confidence that: 1) the program can be completed without the need for significant adjustment to program budgets, and 2) the program can avoid Nunn-McCurdy or critical change breaches.**
  - **Prepared by an office or entity operating outside the program office chain of command.**
  - **Use for all acquisition, budget, and program execution decisions (e.g. source-selection, contract negotiations, IBRs, major reviews, PMB monitoring, annual budget/programming).**

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Should-Cost Definition

- **“Program-Level Should Cost Estimate” - not just the immediate contract!**
- **Who owns? Program office develops, owns, reports & tracks the program-level should cost estimate. Program manager (PM) recommends to MDA (AT&L/CAE) for approval.**
- **When required? All milestone decisions or other decisions going before OUSD(AT&L) and CAE; annual updates/progress reporting.**
- **Which programs? ACAT I, II and III**
- **Intent:**
  - **A DoD internal management tool used to incentivize performance to targets.**
  - **Based on realistic technical and schedule baselines and assumes success-oriented outcomes from implementation of efficiencies, lessons learned, and best practices.**
  - **Designed to drive productivity improvements in our programs and will incorporate results of contract direct and indirect cost reviews (See FAR 15.407-4 and DFARS 215-407-4 should-cost reviews) when they are conducted.**

Should-Cost Definition - (continued)

- **Various approaches, but three recommended:**
  - **Use will-cost estimate as the base and apply discrete, measurable items and/or specific initiatives for savings against that base**
  - **Use bottoms-up approach (different methods from will-cost estimate) without a detailed FAR/DFARS should-cost review and include actionable content to achieve cost below the will-cost estimate**
  - **Use bottoms-up approach (different methods from will-cost estimate) with a detailed FAR/DFARS should-cost review and include actionable content to achieve cost below the will-cost estimate**
- **Should-Cost initiatives will be categorized as:**
  - **Near-term (within the program manager's tenure) and long-term initiatives**
  - **Program driven (within program manager's control), "Service Driven (within the services control)," or "Externally Driven (outside service control)"**

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Should-Cost Definition - (continued)

- **Broad challenges by management to reduce cost through straight reductions by a specified percentage or dollar value against the will-cost estimate are not valid should-cost estimates. Estimates are expected to have specific actionable content associated with reductions.**
- **Most items outside the control of the program office and inconsistent with the current program of record are outside excursions and not appropriate for the should-cost estimate.**
  - **Example: economic production rates**
- **Anything requiring significant investment for completion and an increase to the budget is outside the scope of the should-cost estimate and should be shown separately for consideration.**

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Should-Cost Definition - (continued)

- **PMs should consider:**
  - **Seeking assistance from outside organizations (e.g., the Air Force Cost Analysis Agency, DCMA, SAF/AQC) as they develop should-cost estimate**
  - **Close collaboration with appropriate center level functional organizations**
  - **Will-cost estimate excursions from the non-advocate organization and all previously defined should-cost estimates**

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Will-Cost/Should-Cost

Will / Should Cost Analysis

RDTE + APA Total	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	12-17 Total	To Comp FY18-25	Total FY12-25
Will Cost (ICE)	$805.4	$1,256.0	$1,691.1	$1,260.2	$1,170.5	$973.3	$ 7,156.4	$5,556.0	$12,712.4
Should Cost	$789.4	$1,231.3	$1,675.7	$1,155.8	$ 933.1	$784.5	$ 6,569.8	$4,740.3	$11,310.1

Supporting Evidence for Should Cost:

- **Production rates economical and historically stable**
- **Shorten program timeline**
  - Complete R&D effort in FY16 vs. FY17 as currently planned in ICE
  - Potential production rate increase
- **Strong negotiation positions**
  - Historical cost, learning curve, and understanding of production efficiencies
  - Long-term supplier agreements
- **Parametric model MOA established with contractor for key routine functions/costs**
- **Open system architecture design eases future enhancements**
- **Aggressive "Breakout" IPT established for appropriate technical data packages (TDP) and data rights**

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Another Potential Template

Title: Cost Savings Assessments By System (BY10$M)

	System 1	System 2	System 3	System X
Potential Savings	**$xxxM ($yy/unit)**	**$xxxM ($yy/unit)**	**$xxxM ($yy/unit)**	**$xxxM ($yy/unit)**
Adjusted Learning		**$xxM**	**$xxM**	**$xxM**
	-Cost improvement reasonable (no adjustment made)	-Forecast using historical learning /rate curves	-Forecast Labor at historical improvement curve levels -Forecast material costs at composite level with 95% rate curve	-Touch learning reasonable (not adjusted) -Forecast material costs at composite level w/ 95% rate curve -Historical learning applied to Sustain Eng.
Process Improvement	**$xxM**	**$xxM**	**$xxM**	**$xxM**
	-Eliminate redundant work -Move work to more efficient facility	-Reduce SEPM staff based on history	-Acquire new sources for widgets A, B, and C	-Move work to more efficient facility -Implement cost reduction initiatives
Contracting	**$xxM**	**$xxM**	**$xxM**	**$xxM**
	-Eliminate proposal prep with priced options	-Sync buys w/ other customers -Reduce proposal activity -Reduce flight test activity	-Negotiate lower Material Handling and Flight test support	-Account for concurrent buys with other customers
Other	**$xxM**	**$xxM**		**$xxM**
	-DCMA use new rate projection methods	-DCMA use new rate projection methods	-Not assessed	-DCMA use new rate projection methods
Accelerate Buys	**$xxM**	**$xxM**	**$xxM**	
	-Increase buy rate, shortens program and amortizes fixed costs over more units p	-Increase buy rate, shortens program and amortizes fixed costs over more units per lot	-Increase buy rate, shortens program amortizing fixed costs over more units per lot	-Not assessed

SPO Driven Savings | **Service Driven Savings** | **External Driven Savings**

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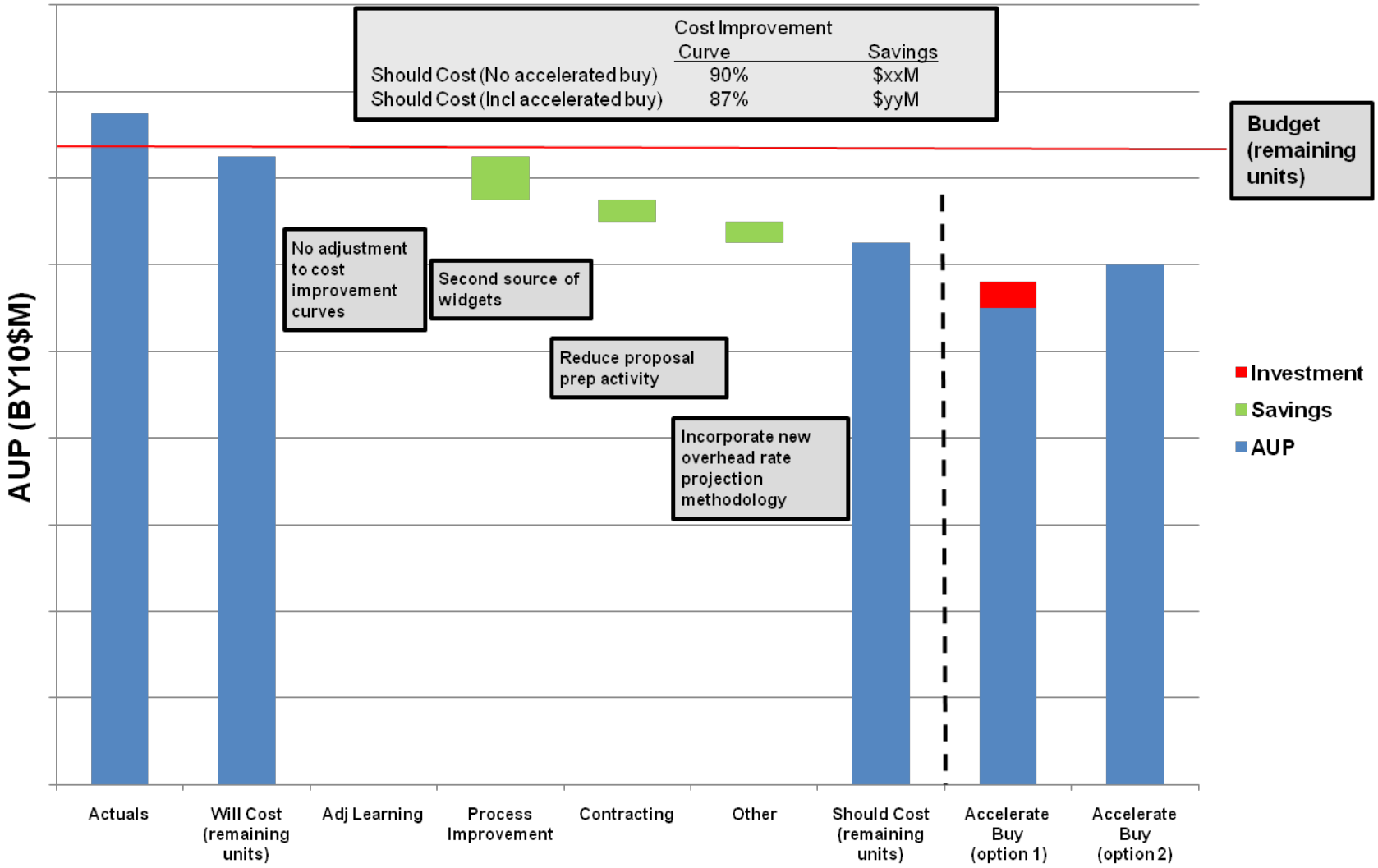
System 1 Should-Cost

Avg Unit Price to Govt



BACKUP

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When Required? Air Force

Event	Will-Cost estimates (Initial / Update)	Program Should-Cost estimates (Initial / Update)	Indirect/Direct Contract Cost Reviews
MS A	Initial	Initial	N/A
Yearly Updates	Update	Update	N/A
MS B	Update (Initial setting of Budget Baseline for Nunn-McCurdy metrics)	Update (Sets Internal Program Execution Baseline)	Initial to Support Contract Actions (Optional)
Yearly Updates	Update	Update	Optional
MS C Decision / LRIP 1 Contract Award	Update	Update	Optional Refer to recommendations IAW FAR 15.407-4 -- Should-cost Review and DFARS 215.407-4 Should-cost
Yearly Updates	Update	Update	Optional
FRP (FDDR) Decision / Contract Award	Update	Update	Optional Refer to recommendations IAW FAR 15.407-4 -- Should-cost Review and DFARS 215.407-4 Should-cost review.
Yearly Updates	Update	Update	Optional

In addition, consider for the following program events:

- Critical Design Review
- First LRIP award out of option contracts
- Interim Contractor Support and Contractor Logistic Support first contract awards
- Organic Logistics Infrastructure (e.g., depot stand-up, DLA, ALC)